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FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly the summary of the principal findings and conclusions for remedial action of the Board of Auditors, contained in its reports to the General Assembly on the audit of the accounts for the financial period ended 31 December 1990, prepared by the Board of Auditors in accordance with General Assembly resolution 45/235 of 21 December 1990 (see annex).

* A/46/50.

ANNEX

Concise summary of principal findings, conclusions and recommendations of common interest, classified by audit area, contained in the reports prepared by the Board of Auditors for the General Assembly at its forty-sixth session

Letter of transmittal

2 July 1991

Sir,

I have the honour to transmit to you in accordance with the request by the General Assembly in paragraph 25 of resolution 45/235, the document summarizing the principal findings, conclusions and recommendations of common interest, classified by audit area, contained in the reports prepared by the Board of Auditors for the General Assembly at its forty-sixth session.

Accept, Sir, the assurances of my highest consideration.

(Signed) Heinz Günter ZAVELBERG
President of the Federal Court
of Audit of Germany
and Chairman
United Nations Board of Auditors

The Secretary-General of the United Nations
New York, N.Y.

Introduction

1. In paragraph 25 of its resolution 45/235 of 21 December 1990, the General Assembly recommended that the Board of Auditors continue to submit to it a concise document summarizing its principal findings, conclusions and recommendations of common interest, classified by audit area and, where appropriate, identifying the audited organization.

2. The findings, conclusions and recommendations included in the present report are only those of relative importance in audit areas of common interest to the organizations being reported on. Findings, conclusions and recommendations that are not of common interest to the organizations audited will be found in the individual reports.

3. For the present session of the General Assembly, the Board has prepared reports for the following organizations which have annual financial periods:

Voluntary Funds Administered by the United Nations High Commissioner for Refugees (UNHCR);

United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA);

United Nations Institute for Training and Research (UNITAR).

4. In paragraph 8 of resolution 45/235, the General Assembly invited the Board of Auditors to issue a special report for United Nations organizations audited on a biennial basis for the first year of each biennium through the Advisory Committee on Administrative and Budgetary Questions, if in the opinion of the Board there were matters that needed to be brought to the attention of the governing bodies and/or the General Assembly. Accordingly, the Board has prepared mid-biennium reports on the following organizations:

United Nations Development Programme (UNDP);

United Nations Population Fund (UNFPA);

International Trade Centre (ITC).

5. The Board also examined the accounts of the United Nations Joint Staff Pension Fund, and the audit report thereon will be included in the report of the United Nations Joint Staff Pension Board.

6. The principal findings, conclusions and recommendations of common interest, classified by audit area are set forth below.

Budgetary control

7. In UNDP, considerable over-expenditures as well as unspent balances of project budgets indicate deficiencies in project management by the Office for Project Services (OPS). The Board recommended that budget management and completion of projects executed by OPS need to be improved effectively.

8. The designation and execution of certifying and approving functions in field offices of UNFPA was found to have flaws in numerous cases and the execution of supervisory functions by headquarters in this respect showed considerable weaknesses. The Board recommended that the existing provisions governing the designation and execution of certifying and approving functions in the field be revised and that the execution of supervisory functions by headquarters regarding the certifying and approving functions in the field has to be strengthened.

9. In UNFPA, support activities are not paid to non-governmental organizations (NGOs) on an equal scheme of assessment and on the basis of actual project expenditures. The Board recommended that clarification is needed in order to ensure that those non-governmental organizations receive support costs on an equal scheme of assessment and on the basis of actual project expenditures.

10. In UNITAR, there was an incurrence in 1990 of a budget deficit amounting to $63,126 in the General Fund and $28,383 in the Special Purpose Grants Fund. The Board recommended that vigilance should be exercised in the monitoring and incurrence of expenditures to ensure that these are incurred within the approved budget and released allotment advices.

11. Expenditures amounting to $205,810.81 were incurred by UNITAR prior to receipt of allotment advices. The Board is of the opinion that the Administration should consider the setting up of an imprest account for projects executed by UNDP and to explore ways of improving the system of releasing and accounting of allotment advices.

12. Expenses incurred in field offices of UNITAR are directly charged to expenditures without obligation. Total expenditures amounted to $868,700.35 whereas obligations set up for the whole year amounted to $116,754.00 only. The Board recommended that the system of authorizing, controlling, monitoring, and reimbursing expenditures in the field offices should be improved.

13. In UNITAR, there is a considerable decline in number of donor countries, pledged contributions and collections over the eight year period from 1983 to 1990 using 1983 as the base year. The Board is of the opinion that the preparation of budget proposals should take into consideration the decline in revenue resources to allow realistic assumptions and projections.

Accounts and financial reporting

14. In UNRWA, it was noted that the total amount of outstanding pledges for UNRWA is equal to about 16 per cent of its total expenditure incurred in 1990. The Board recommended that outstanding pledges should be disclosed in a note to the financial statements.

15. In UNHCR, due to an inadequate review, long completed transactions recorded as cash in transit were not investigated and adjusted to reflect the correct balances in the related accounts. The Board is of the opinion that all funds in transit at year-end should be adequately investigated and promptly adjusted to reflect the actual balances in the related accounts.

16. The present bulk reporting of other trust funds in the financial statements of UNHCR does not permit adequate disclosure of individual trust funds with significant balances at the year-end. The Board recommended that to improve transparency, the reporting of "other trust funds" in schedule I should be expanded to disclose separately any trust fund with a favourable balance of $500,000 and above at year-end.

17. In UNITAR, the accounting treatment for pledged contributions was changed from accrual to cash basis affecting the balances of some accounts in the financial statements. It is the opinion of the Board that the effects of the change in accounting policy should have been fully disclosed.

18. Prior year expenditures in UNITAR amounting to $10,713 were directly charged against expenditures for the current year. The Board recommended that expenditures incurred in prior years and recorded during the current year should be shown as a separate item in the statement of results of operations for the year.

Cash management

19. In UNRWA, an average of $US 20 million cash is kept freely available on current/call accounts for unforeseen events. The Board recommended that idle cash should be placed on higher yielding time deposits to the extent permitted without neglecting other cash management considerations. In addition it was found that in some cases interest and exchange rate gains arising from project funds are not credited to these funds but to the General Fund. The Board recommended that income from these sources should be credited to the corresponding fund.

20. In spite of high advances in UNFPA, very little interest income is reported by recipient Governments. The same applies for intergovernmental institutions and agencies, including non-governmental organizations. The Board recommended that further steps are required to enhance the control of interest income earned by executing agencies on funds provided by UNFPA.

Technical co-operation and project activities

21. Not only have the Standard Basic Agreements not yet been signed with all agencies of the United Nations system executing UNDP projects but those signed are deficient. They do not warrant full audit coverage of funds entrusted to the agencies by UNDP and adequate information about audit findings. UNDP or its external auditors have no possibility to audit how the funds have been spent. The Board recommended that further efforts are needed to ensure that all executing agencies that are organizations of the United Nations system sign basic agreements about their responsibilities in executing UNDP funded projects. It also recommended that the standard Basic Executing Agency Agreement should be amended in such a way as to ensure that not only the accounts, but also effectiveness and efficiency of project management are audited by the Agencies' External Auditors, that all audit findings concerning project execution, and not only those included in the Auditors' report, are submitted to UNDP and its External Auditors, and that UNDP itself has the mandate to review project implementation by the respective executing agency.

22. In spite of a high workload for the Office for Project Services (OPS) in UNDP, project management officers and division chiefs, the Project Acceptance Committee has not yet been used to regulate the increase in projects awaiting execution by OPS. The Board recommended that the number of projects awaiting execution by the Office for Project Services be strictly controlled so that the management capacity of the Office is not exceeded.

23. In UNDP devices that could facilitate the monitoring function and thus improve project management performance have not been implemented or are inadequate. In the Board's view an early systematic approach identifying information needs and requirements could have avoided the current difficulties as well as the need for costly interim measures.

24. In spite of a lack of reliable results and an in-depth evaluation of the pilot phase, the "Economists for Africa" Programme (Economist Programme) was extended. An in-depth evaluation of the Economist Programme was still missing after five years of implementation. The Board recommended that new development initiatives should be designed and tested in such a way that reliable results verified by an evaluation can be obtained during a trial period, thus providing a sound basis for the subsequent decision about full-scale implementation of the initiative and warranting further and/or increased input of resources.

25. In UNFPA, the circumstances under which funds for pre-project activities may be approved are not clearly defined and specified with regard to purpose, scope and necessary inputs. In addition, no precautions are in place warranting that the proportion of pre-project activities remains within reasonable limits with respect to the financial volume and the duration of the intended project itself. The Board recommended that provisions should be established warranting that the purpose, scope, duration and necessary inputs of any pre-project activities are precisely specified and that approval

authority for pre-project activities should be restricted to the financial volume and the scheduled duration of the actual projects.

26. In UNHCR, the review of project activities disclosed operational weaknesses that adversely affected the timely implementation and closure of projects. The Board recommended that implementing agencies should be encouraged to ensure timely reporting of project activities to facilitate the closure of completed projects.

27. Supplies valued at $294,401 temporarily stored by UNHCR in warehouses in a host country pending trans-shipment to their final destination were allegedly confiscated by customs officials of that country. The Board recommended that UNHCR should take appropriate measures to recover the confiscated goods and to improve facilities planning to ensure the availability of adequate accommodation prior to the shipment of goods. The Board also noted inefficient utilization by an implementing agency of project funds allocated for hospitality, accommodation and communications. In the Board's view, the administration should re-emphasize to implementing partners/agencies that the utilization of donor contributions for the welfare of refugees should always override other considerations.

28. In UNRWA, specific local requirements were not taken into account when a new school was designed and constructed in the West Bank. In the view of the Board, the Agency should provide for more flexibility in the design of schools to allow for adjustments to local circumstances.

Financial management and control systems

29. In UNHCR, recovery of project funds embezzled by an implementing agency was not effectively enforced as provided for in the implementing agreement. The Board recommended that provisions in the implementing agreements on the effective recovery from implementing agencies of project funds not utilized for purposes intended should be rigorously enforced, as this will compel the executing agencies to improve control of project funds.

30. The absence of effective supervisory controls enabled an Administrative Assistant (Finance) of UNHCR field office to commit a number of administrative and financial improprieties, including the embezzlement of funds valued at approximately $US 17,759. Additionally, three staff members of an implementing partner were suspected of misappropriating project funds amounting to $US 133,097 of which a transfer of $US 69,767 was made into a fictitious savings account. The Board recommended that existing organizational arrangements and procedures for the management of cash resources in the field offices should be strengthened and personal responsibility for losses re-emphasized.

31. Our audit visits to field offices confirmed the difficulty of providing adequate protection for UNHCR cash and property in certain unfavourable political situations. The Board recommended that the difficulty of providing adequate protection for UNHCR resources in the field offices in violent

political situations should be carefully reviewed and appropriate remedial action taken.

32. In UNITAR for the Special Purpose Grants Fund, there exists an inadequate system for controlling and monitoring expenditures for each project in accordance with specific grant agreements. The Board is of the opinion that a system of project code identification that allows direct referencing of project funds with grant agreements should be adopted.

33. The applicability of United Nations administrative instructions to the International Trade Center remains unresolved. This constitutes a weakness in ITC's internal control system. In the opinion of the Board there is an urgent need to decide whether or not ITC has to comply in full with United Nations administrative instructions and, if not, what directives ITC should follow instead.